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ISRAEL-FEDAYEEN: The attack on Maalot yesterday will not in itself seriously affect the substance of negotiations for an Israeli-Syrian disengagement agreement, but it will sharply increase tensions in the area. It is almost certain to result in Israeli raids on fedayeen concentrations in southern Lebanon that will oblige Syria to offer rhetorical support for the terrorists and will cause a new diplomatic fracas between Israel and Lebanon.

Lebanon's Prime Minister has charged that the Israelis have no evidence that the perpetrators of the Maalot attack infiltrated Israel from southern Lebanon. He suggested that they had come, as they claimed, from within Israel and the Israeli-occupied territories. A student released by the commandos provided some evidence for this assertion. She stated that the students believed that one of the guerrillas, who spoke Hebrew, was an Israeli Arab who worked in Safed, the Israeli town from which the hostages had come.

The Palestinian press also claims that the terrorists came from within the occupied areas and that they belonged to the Popular Democratic Front for the Liberation of Palestine. This Marxist organization has a rudimentary organization and a number of adherents in the Israeli-occupied West Bank and has in the past carried out a number of relatively minor hit-and-run attacks. It has not been involved in a major terrorist incident for some years, however, and recently has been among the fedayeen groups favoring a negotiated settlement in the Middle East.

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Israel's ambassador in Washington warned at a press conference yesterday that the attack on Maalot will increase Israeli apprehensions over "bringing tens of thousands of Arabs closer to Israel" in a Golan Heights agreement. Such fears are widespread in Israel, and the government is again being criticized for failure to halt the growing number of terrorist attacks and to provide adequate security for the Israeli border settlements. The widely publicized incidents at Maalot and Qiryat Shemona are the most spectacular of a number of attacks in recent months on Israeli personnel and installations both in Israel proper and in the Israeli-occupied territories.

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*PORTUGAL: For the first time in Portuguese history, Communists are in the government.

A few hours after General Spínola assumed the presidency yesterday, the junta announced the members of the provisional government. Alvaro Cunhal, secretary general of the Communist Party, was named minister without portfolio; Communist Party member Avelino Pacheco Gonçalves was named minister of labor.

The junta had indicated earlier in the week that Communist participation was essential to demonstrate the junta's dedication to open political participation.

The new prime minister is former bar association president, Adelino da Palma Carlos, a wealthy lawyer and professor who is not aligned with any political party. The foreign ministry went to Socialist Party leader Mario Soares. Other Socialists receiving ministerial posts are: Antonio de Almeida Santos, minister of interterritorial coordination; Francisco Salgado Zenha, minister of justice; and Raul Rego, minister of information. The other eight portfolios apparently were given to members of center parties or to persons who are not aligned with any political group.

In an inaugural address, President Spínola warned against excesses of enthusiasm and bestowed lavish praise on the Armed Forces Movement. He was especially complimentary to the "younger cadres" whose "nobility rescued the country from national tragedy." Although Spínola seems to be in control, this rhetoric may resurrect rumors that the junta is the hostage of the so-called Captain's Movement.

In contrast to the blandishments Spínola lavished on the younger officers, the junta announced yesterday that 42 senior officers had been placed on the reserve

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list, bringing to 66 the number of high-ranking officers who have been purged since the coup. Among those purged are several prominent conservatives who do not support Spínola's notions of self-determination for the African territories.

The junta also announced that all members of the now disbanded general directorate of security who have not yet reported to the authorities must do so by May 18. [REDACTED]

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*Because of the shortage of time for preparation of this item, the analytic interpretation presented here has been produced by the Central Intelligence Agency without the participation of the Bureau of Intelligence and Research, Department of State.

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PAKISTAN-IRAN: The Pakistani air force is nearly doubling its present transport capability with the acquisition of four US-built C-130s from Iran. Islamabad had been negotiating with Iran for additional transports for over a year and finally signed a contract on May 11. Only three or four of Pakistan's six C-130s are currently operational, and Islamabad has borrowed two from Saudi Arabia.

During the war with India in 1971, Pakistan had to make extensive use of civil transport aircraft to ferry troops to the east. The new additions will still not eliminate Pakistan's need to mobilize civil transport aircraft in an emergency.

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INDONESIA-VIETNAM: Jakarta has again warned that its continued participation in the International Commission for Control and Supervision should not be taken for granted. Saigon and the Viet Cong's recent suspension of political talks in Paris and Military Commission talks in Vietnam probably triggered the warning by Indonesia's information minister on May 14, although Jakarta has had misgivings about the Vietnam situation for some time.

Indonesia has found itself in an uncomfortable position on the ICCS and has recently been the target of intense public criticism from Hanoi for unilaterally investigating alleged Viet Cong cease-fire violations. Jakarta feels that Iranian ineffectiveness as an ICCS participant further complicates Indonesia's problems with the Communists.

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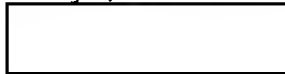
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JAPAN: The balance of payments improved markedly last month as the overall deficit declined to \$760 million from \$1.02 billion in March.

The trade deficit increased only slightly to \$380 million, largely because exports performed strongly, registering a 50-percent increase compared with April 1973. As expected, the high cost of oil boosted the import bill more than 90 percent above the level of a year ago. Although oil imports were up only 5 percent in volume, their cost was 300-percent higher than last year.

Tokyo's continuing efforts to curb the movement of long-term capital abroad were quite successful, cutting the net amount to \$160 million compared with \$325 million in March and \$728 million in April 1973. Government institutions are restricting the amount of money available for overseas investment, and domestic firms are being permitted to borrow abroad on a long-term basis for the first time in three years. The surplus on the short-term capital account increased as a result of Tokyo's encouraging short-term borrowing abroad.

Because of these improvements and some use of private dollar holdings, official reserves increased by \$272 million.



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[REDACTED]

DENMARK: Prime Minister Hartling's minority government survived its most serious crisis yesterday when a majority was finally scraped together in parliament to approve the government's controversial tax measures. Hartling had threatened to call elections if his economic proposals were voted down.

After postponing the vote three times so that inter-party negotiations on a compromise economic package could continue, the opposition Progressives and Radical Liberals finally gave the government the majority it needed. The final vote was 106 to 73.

Although the details of the compromise are still not clear, the Progressives and the Radical Liberals probably received significant concessions from Hartling. Both parties had indicated that they would not support the government's original tax package.

Hartling's original tax measures would have reduced income taxes by approximately 17 percent and increased sales taxes on luxury items and imports by about 20 percent. Nationwide wildcat strikes and demonstrations in Copenhagen calling for Hartling's resignation had further threatened the five-month-old government.

[REDACTED]

DOMINICAN REPUBLIC: The only remaining opposition group of any consequence has withdrawn all of its candidates from today's general elections and has charged the government with election fraud. Several minor parties had pulled out of the race earlier after making similar charges. The one tiny fringe group sticking it out would do well to garner one percent of the vote.

President Balaguer had hoped to avoid running alone. On several occasions he had met with parties of the principal opposition group, the Santiago Accord coalition, to assure them that the elections would be honest. Nevertheless, the coalition decided yesterday to call a boycott after the government failed to meet fully the coalition's eleventh-hour demands for safeguards against fraud and for the release of all "political prisoners."

The coalition, whose members range from right to far left, appeared to be on its way to winning a number of congressional seats and several key mayorships before its decision to abstain. Its presidential candidate was running a poor second to the President, however. Balaguer probably would have won nearly 60 percent of the popular vote.

The opposition's withdrawal will tarnish Balaguer's electoral victory somewhat, but aside from a high voter-abstention rate, few immediate repercussions are likely.

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FOR THE RECORD

North Vietnam: Truong Chinh, Hanoi's second-ranking Politburo member, departed on May 14 on a visit to Czechoslovakia and Hungary. Chinh's National Assembly delegation has already passed through Peking and almost certainly will also transit Moscow en route. [REDACTED]

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USSR-China: The USSR and China yesterday signed their bilateral trade agreement for 1974. As usual, no figures or specific goals were published. According to a Soviet embassy official in Peking, however, the USSR expects trade in 1974 to be limited to about \$350 million. Actual exchanges during 1973 reached only \$274 million. [REDACTED]

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